

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 3286-01  
Bill No.: HB 1219  
Subject: Employees - Employers; Insurance; Taxation and Revenue - Income  
Type: Original  
Date: February 11, 2002

---

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON STATE FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>
General Revenue	\$0 to (\$10,119,316)	\$0 to (\$45,113)	\$0
<b>Total Estimated Net Effect on <u>All</u> State Funds*</b>	<b>\$0 to (\$10,119,316)</b>	<b>\$0 to (\$45,113)</b>	<b>\$0</b>

**\*Subject to appropriation.**

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>
None			
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 5 pages.

## **FISCAL ANALYSIS**

### **ASSUMPTION**

Officials of the **Department of Insurance (INS)** and **Office of the State Treasurer (STO)** state this proposal would not fiscally impact their agency.

Officials of the **Department of Revenue (DOR)** state this legislation establishes the “Small Business Health Insurance Program” by authorizing a tax credit for small employers incurring costs for health insurance paid on behalf of employees. Small employers not paying health insurance premiums for employees as of January 1, 2001, which begins to pay such premiums shall receive a tax credit equal to 50% of the premiums paid the first two years, 35% of the premiums paid the third and fourth years, and 25% of the premiums paid each year after. A small employer currently paying health insurance premiums for employees will receive a tax credit equal to 25% of the premiums paid, if the employer can document a minimum of 20% increase in premium costs per eligible employee.

The tax credit is administered by the DOR and is conditioned upon receiving appropriations from general revenue or the tobacco settlement to offset the costs of the tax credit to the state. The aggregate amount of tax credits awarded under the bill's provisions may not exceed \$10 million. The bill has an expiration date of December 31, 2006.

According to Office of Administration, Budget and Planning, there are 140,000 small employers eligible for this tax credit. Using these figures, Personal Tax Bureau will need one Tax Processing Technician to certify the amount of the credit and approve the credit claims, and one Tax Processing Technician to process the credits received. The Business Tax Bureau will also need one Tax Processing Technician to process the credits received.

DOR assumes this legislation will require modifications to the individual income tax and credit systems. The Division of Taxation estimates these modifications, including programming changes, will require 1,384 hours of contract labor at a cost of \$46,170. State Data Center charges will increase due to the additional storage and fields to be captured. Funding in the amount of \$9,007 is requested for implementation costs. Modifications to the income tax returns and schedules will be completed with existing resources.

**Office of Administration, Budget and Planning (BAP)** officials estimate that there are approximately 136,897 businesses in Missouri that would meet the definition of small business in this proposal according to the 1999 U. S. Census Bureau for Missouri. BAP estimates that these businesses have approximately 1,066,173 employees. BAP has not estimated the number of establishments that may participate in the program. BAP assumes this legislation would not fiscally impact BAP.

**ASSUMPTION** (continued)

In a similar prior proposal, BAP assumed the businesses in Missouri that meet the definition of small business has increased to about 140,000. BAP assumed that if each small business employer qualified for \$50 per employee, the revenue loss would be \$51.4 million annually. BAP states that if only fifty percent of the businesses participate the tax credits would still be \$25.7 million annually. Therefore, BAP assumes the maximum tax credit of \$10 million in the aggregate would be reached the first year the credit is available.

**Oversight** assumes BAP estimates only reflect a \$50 per eligible employee for the calendar year, while actual premium costs would be higher than \$50 per month, per eligible employee. Oversight assumes that ten percent of the largest small businesses (1,204) in Missouri are currently paying health insurance premiums for employees (41,538) and would be eligible to receive a credit for 25% of health insurance premiums paid per month per eligible employee or \$6,230,700 (41,538 employees x \$50 x 12 months x 25%). Oversight assumes of the small businesses not paying for employees health insurance (134,541), fifty percent (67,271 small businesses with 492,910 employees) would elect to participate in this new tax credit program and would be eligible to receive a 50% credit for premiums paid per month per eligible employee or \$147,873,000 (492,910 employees x \$50 x 12 months x 50%). Oversight did not consider the number of farmers eligible for this credit since the credit limits have already been reached with small businesses eligible for the credit. Therefore, Oversight has ranged the fiscal impact for FY 2003 from \$0 to (\$10,000,000) due to the credit limit of \$10 million in the aggregate, and the provisions in the proposal that allows the tax credit only upon appropriation of moneys received from the master settlement tobacco agreement entered into on November 23, 1998.

**This proposal would result in a decrease in Total State Revenues.**

<u>FISCAL IMPACT - State Government</u>	FY 2003 (6 Mo.)	FY 2004	FY 2005
<b>GENERAL REVENUE FUND</b>			
<u>Loss to General Revenue Fund</u>			
Tax credit for employer provided health insurance	\$0 to (\$10,000,000)	\$0	\$0
<u>Cost - Department of Revenue</u>			
Personnel (3 FTE)	(\$31,788)	(\$32,583)	\$0
Fringe Benefits	(\$11,447)	(\$11,733)	\$0
Equipment & Expenses	(\$20,904)	(\$797)	\$0
Programming costs	(\$55,177)	\$0	\$0
Total Costs - DOR	<u>(\$119,316)</u>	<u>(\$45,113)</u>	<u>\$0</u>

<u>FISCAL IMPACT - State Government</u>	FY 2003 (6 Mo.)	FY 2004	FY 2005
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND*</b>	<b><u>(\$10,119,316)</u></b>	<b><u>(\$45,113)</u></b>	<b><u>\$0</u></b>
*Subject to appropriation.			
<u>FISCAL IMPACT - Local Government</u>	FY 2003 (6 Mo.)	FY 2004	FY 2005
	\$0	\$0	\$0

#### FISCAL IMPACT - Small Business

Small businesses providing health insurance for certain employees will see a reduction in taxes due to this tax credit.

#### DESCRIPTION

This bill establishes the Small Business Health Insurance Assistance Program to allow small employers a tax credit for costs associated with health insurance premiums paid on behalf of employees. Small employers are those with 2 to 25 employees who work at least 30 hours per week. The bill also specifies that a farmer's spouse may be considered a second eligible employee if the spouse is hired by the farmer.

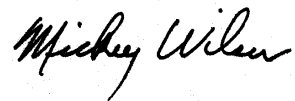
All eligible small employers will receive a tax credit of 25% of the amount paid annually in premiums for eligible employees. A small employer will receive higher credits for up to 4 years if the employer does not pay its employees' health insurance premiums on January 1, 2002, and begins to pay for its employees' premiums after that date. The tax credit is conditioned upon receiving appropriations from general revenue or the tobacco settlement to offset the costs of the tax credit to the state. The aggregate amount of tax credits awarded under the bill's provisions may not exceed \$10 million.

The bill has an expiration date of December 31, 2006.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Insurance  
Office of the State Treasurer  
Department of Revenue  
Office of Administration  
    Budget and Planning

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA  
Acting Director  
February 11, 2002